
Audit of the Accuracy of USAID/Tanzania's Recipient Audit Universe

**Report No. 4-621-00-004-P
February 7, 2000**

REGIONAL INSPECTOR GENERAL/PRETORIA



memorandum

*Regional Inspector General/
Pretoria*

DATE: February 7, 2000

TO: Mission Director, USAID/Tanzania, Lucretia Taylor

FROM: Regional Inspector General/Pretoria, Joseph Farnella *Joseph Farnella*

SUBJECT: Audit of the Accuracy of USAID/Tanzania's Recipient Audit Universe,
Report Number 4-621-00-004-P

This is the final report on the subject audit. We received your comments to our draft report and included those comments as Appendix II to this report.

This report has no recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

Financial audits of contracts and grants are a primary basis for effective management and control of USAID's program expenditures. These audits are designed to provide Agency management reasonable assurance that transactions are properly recorded and accounted for; laws and regulations, and provisions of contract or grant agreements are complied with; and USAID-financed funds, property and other assets are safeguarded against unauthorized use or disposition.

In response to congressional concerns, USAID has taken an active role in recent years using audits as a management tool to improve financial accountability of its programs. During 1991 and 1992, the Agency revised its standard provisions for its contracts and grants, requiring annual audits of non-U.S. organizations disbursing USAID funds of \$25,000 or more. The threshold was increased to \$100,000 in May 1994 and to \$300,000 in July 1998.

Furthermore, in April 1992, USAID issued a General Notice, defining the role of USAID missions in obtaining audits of their contracts, grants and cooperative agreements with non-U.S. organizations. In May 1996, these requirements were incorporated into chapter 591 of USAID's Automated Directives System (ADS) which, among other things, requires USAID

missions to (i) establish an audit management program; (ii) maintain an audit inventory database; and (iii) have audits done for non-U.S. grants, contracts and cooperative agreements that meet the audit threshold.

These initiatives are of far reaching consequence in preventing misuse of USAID development funds and facilitating timely corrective actions by the Agency. Lack of adequate audit coverage constitutes an unacceptable risk because, without such a control mechanism, financial accountability of program expenditures cannot be reasonably assured.

In March 1995, the Office of Inspector General (OIG) issued Audit Report No. 03-95-009 on USAID's implementation of the Agency's 1992 initiative to improve the financial management of its programs. The report concluded that most missions had implemented the general requirements of the financial audit management program and established audit inventory databases. However, complete coverage was impaired as a result of obstacles arising from host government restrictions and local audit firm capabilities.

In March 1998, the OIG issued Audit Report No. 9-000-98-002-F on USAID missions' roles in obtaining audits of their contracts, grants, and cooperative agreements. The report concluded that 11 of the 14 USAID missions selected Agency-wide generally obtained audits of their contracts, grants, and cooperative agreements as required by ADS chapter 591. However, a significant number of required audits were not completed at 10 of the above 14 USAID missions.

In May 1999, OIG management decided to verify the accuracy of USAID missions' recipient audit universe worldwide over a period of three years. Accordingly, RIG/Pretoria included this audit in our fiscal year 2000 audit plan.

Audit Objective

RIG/Pretoria performed this audit to answer the following question:

Is USAID/Tanzania's audit universe accurate and were required audits conducted in a timely manner?

The audit scope and methodology are described in Appendix I.

Audit Findings

The audit showed that USAID/Tanzania developed an accurate recipient audit universe. However, required audits were not completed in a timely manner.

As of September 30, 1999, USAID/Tanzania disbursed approximately \$ 14,491,115 to

four U.S and four non-U.S. organizations. The table below provides a breakdown of these disbursements by type of agreement and by number and type of recipients:

Type of Agreement	U.S.		Non-U.S.		Total	
	Disbursements and No. Of Recipients		Disbursements and No. Of Recipients		Disbursements and No. Of Recipients	
Contract	\$ -	-	\$ -	-	\$ -	-
Host-country owned Local Currency	-	-	3,787,879	1	3,787,879	1
Grant	5,025,224	2	4,472,588	3	9,497,812	5
Cooperative Agreement	1,205,424	2	-	-	1,205,424	2
TOTAL	\$ 6,230,648	4	\$ 8,260,467	4	\$ 14,491,115	8

From this table, we determined that the above four non-U.S. recipients with a total disbursement of \$8,260,467 were subject to audit coverage at September 30, 1999. We then ascertained that (1) the above recipients were included in the Mission's audit database inventory, (2) the required audits were completed, and (3) audit reports were prepared in accordance with USAID guidelines on financial audits.

In addition, the Mission took several actions to implement an audit management program in accordance with the requirements of ADS Chapter 591 which included:

- establishing a Management Control Review Committee to monitor the status of the Mission's audit program and to assure that its audit responsibilities were carried out;
- designating an audit management officer to coordinate and monitor the Mission's financial audit program and follow up on implementation of recipient-contracted audit recommendations;
- including required audit clauses in its grants and contracts and budgeting funds for audits; and
- maintaining an automated inventory of contracts, grants, and cooperative agreements requiring audits and to track such audits.

However, we found that reports were not always completed in a timely manner. ADS 591 requires audits to be submitted to USAID within nine months after the end of the recipients' fiscal year (for agreements signed before July 1998 the requirement was 13 months). For three out of the four non-U.S. recipients in the above table, audit reports were submitted between nine and 33 months beyond the due dates.

This occurred because the required audits are of various Government of Tanzania (GOT) ministries. The Mission stated that the problems are twofold. GOT is often late in preparing their fund accountability statements for audit. Secondly, the Supreme Audit Institution (the organization that must audit GOT ministries) also contributes to delays in the timely completion of audits because they have staffing and workload problems.

Nevertheless, the Mission is constantly working with the Government of Tanzania and its Supreme Audit Institution to facilitate more timely audits. In view of their continued efforts and the difficulty in obtaining audits within the required the timeframe from foreign governments, we are not recommending additional action.

Management Comments and Our Evaluation

USAID/Tanzania management concurred with the report findings that the Mission developed an accurate audit universe and obtained the required audit coverage.

However, the Mission also stated that audit reports were not submitted in a timely manner due to the reasons stated above. USAID/Tanzania management was constantly working with the host country government and the Supreme Audit Institution to facilitate timely issuance of audit reports.

APPENDIX I

SCOPE AND METHODOLOGY

Scope

The audit was performed in accordance with generally accepted government auditing standards and assessed whether (1) USAID/Tanzania's audit universe was complete and accurate, and (2) required audits were done in accordance with applicable standards.

The OIG conducted a "Worldwide Audit of Selected Missions' Role in Obtaining Audits of Their Contracts, Grants and Cooperative Agreements (Report No. 9-000-98-002-F, March 20, 1998)." That report considered recipient financial audits which had been completed as of October 31, 1996. Therefore, we obtained information on audits completed after that date.

Fieldwork was performed at USAID/Tanzania in Dar Es Salaam, Tanzania from November 12 through November 24, 1999 and covered USAID disbursements of \$8.2 million subject to audit. The audit scope included:

- (1) reviewing the Mission's audit management program and related documents,
- (2) interviewing cognizant Mission officials, and
- (3) reviewing the Mission's automated database universe of contracts, grants, and cooperative agreements and identifying those that require audits.

In addition, we obtained information on (1) total disbursement for all grants, contracts and cooperative agreements (U. S. and non-U.S.) for USAID's latest fiscal year ended September 30, 1999 and, (2) the number and amount of grants, contracts and cooperative agreements falling below the audit threshold of \$300,000 to obtain a complete picture of the Mission's portfolio.

The audit criteria principally comprised of Chapter 591 of USAID's Automated Directives System (ADS) and the OIG's "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines), revised in July 1998.

Methodology

The methodology included (1) reviewing the Mission's audit inventory database system to determine if it contains the information needed to monitor and track required audits, and (2) examining documentation, and (3) conducting interviews with cognizant officials to determine whether the Mission has met its responsibilities established by ADS Chapter 591 and the Guidelines.

To answer our audit objective, we obtained the universe of USAID/Tanzania's grants, contracts and cooperative agreements and determined the number and dollar amounts of all agreements with non-U.S. organizations subject to audit coverage at September 30, 1999. The above information was obtained from the Mission's contract files and the Mission Accounting and Control System (MACS) database. We then ascertained whether: (1) such agreements were included in the Mission's audit database inventory, (2) required audits were completed on a timely basis, (3) audit reports were prepared in accordance with USAID's guidelines and sent to RIG/Pretoria for desk review, and (4) the agreements contained the required audit clauses.

We did not audit the Mission's MACS database system because of time constraints and because it was not directly relevant to our audit objective. Also, because of the small size of the audit universe, we did not use a materiality threshold and considered even one exception as significant for reporting purposes.



U.S. Agency For International Development
memorandum

DATE: January 14, 2000

REPLY TO

ATTN OF: Lucretia Taylor, Mission Director

SUBJECT: Audit of the Accuracy of USAID/Tanzania's Recipient Audit
Universe, Report Number 4-621-00-00X-P

TO: Joseph Farinella, Regional Inspector General/Pretoria

REF: RIG'S email dated December 23, 1999

The Mission has reviewed the draft audit report on USAID/Tanzania's recipient audit universe and is in agreement with the auditors' findings and comments that the Mission developed an accurate recipient audit universe and obtained coverage of its non-U.S. recipients as required under ADS 591.

However, as noted by the auditors, some Government audit reports were not submitted in a timely manner due to reasons stated in the report. The Mission is constantly working with the Government and Supreme Audit Institution to facilitate more timely audits.

The Mission appreciates the support given to us by the RIG during the performance of this audit.